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UNCLAS SECTION 01 OF 03 MEXICO 000198

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TREASURY FOR NANCY LEE, IA  
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SUBJECT: NEW FINANCE SECRETARY MEETS WITH AMBASSADOR, NSC

REF: A. 2639, B. 2537, C. 2709

¶1. (SBU) Summary. Ambassador Carlos Pascual and NSC Senior Director David Lipton met with newly appointed Secretary of Finance and Public Credit (SHCP) Francisco Cordero and Deputy SHCP Secretary Alejandro Werner. They discussed the current state and outlook of Mexico's economy, the importance of bilateral cooperation in the context of the G-20, climate change issues, and opportunities for mobilizing capital to municipalities such as Ciudad Juarez and Tijuana. End Summary.

¶2. (SBU) On January 13, the Ambassador, NSC Senior Director David Lipton, Evensen Dodge International Senior Vice President Fernando Gama (a USAID contractor), and Emboffs met with newly appointed SHCP Secretary Francisco Cordero, SHCP Deputy Secretary Alejandro Werner, and SHCP Coordinator of State and Municipalities, Jose Antonio Gonzalez.

#### Economic Outlook

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¶3. (SBU) SHCP Deputy Secretary Alejandro Werner provided an overview of Mexico's economic recovery and outlook for 2010. In 2009, the economy contracted an estimated 6.8 percent due to a drop in industrial production and the H1N1 outbreak. The recovery began in the third quarter of last year and is attributed to growth in industrial and services sectors, as well as an improvement in aggregate demand. Hacienda expects the economy to grow 3 percent this year. Werner said this was a conservative projection since actual growth is subject to U.S. economic performance. SHCP estimates that the recently passed fiscal reform will generate one percent of GDP in additional revenue. Moreover, the increased autonomy of Pemex (as an outcome of the last energy reform) and the liquidation of the electric parastatal Luz y Fuerza del Centro should also help public finances. Nevertheless, he said more needed to be done to strengthen the non-oil tax base, competitiveness, and domestic sources of growth. This year, the GOM will focus on the political reform agenda, infrastructure and other initiatives to help strengthen the country's competitiveness.

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14. (SBU) NSC Senior Director David Lipton underscored the importance of U.S.-Mexico bilateral and multilateral cooperation in the context of the G-20. He said the U.S. and Mexico have mutual interests and should develop better mechanisms for cooperation that are ongoing and not just reactive. Given the challenges from China and other emerging economies, it is essential for Mexico and the U.S. to align views in order to establish a framework for sustainable growth. Lipton underlined that success in this year's G-20 Summit was critical and should not deteriorate into a U.S. verses China forum; China's exchange rate issue impacts other countries as well, not just the U.S. Cordero agreed that Mexico has shared interests and positions with the U.S. on China.

Climate Change

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15. (SBU) Recognizing that Mexico will host the COP 16 in

MEXICO 00000198 002 OF 003

November-December, Lipton suggested a complementary focus on the financial aspect of climate change and recommended a dialogue with Mexico on this matter. Given European doubts about the usefulness of the Copenhagen Accord, the Ambassador stressed that it is key for the U.S. and Mexico to be on the same page. Lipton noted that Cordero could discuss this issue, as well as trade, competitiveness, and financial reform issues in his meeting with Secretary Geithner on January 20.

16. (SBU) Secretary Cordero agreed on the need to strengthen cooperation and communication with the Embassy and Treasury on the issues raised by Lipton and the Ambassador. He said the topic of climate change is a priority in the Calderon Administration and underscored the importance of engaging SHCP in this discussion. Gonzalez added that SCHP has had informal discussions with Treasury on initiatives to develop a North American carbon market and suggested that such a proposal might be appropriate if there is no agreement at COP-16 on a global carbon market. The Ambassador and Lipton underscored that any progress on carbon markets will need to take into account progress on U.S. energy reform legislation. They informed Cordero of the first meeting of the US-Mexico Bilateral Framework on Clean Energy and Climate Change in Washington on January 26, which will deal with our bilateral agenda on climate change, energy and the potential market for renewables. The Ambassador said he would like to see a broader, more positive bilateral agenda, rising above trade disputes to discuss opportunities such as developing a regional renewable energy market. Werner highlighted the need for careful interagency coordination as there are many GOM elements responsible for energy and climate change issues.

17. (SBU) Lipton alerted Cordero of the USG's plans to eliminate the subsidies on fossil fuels within a year and asked if Mexico would join and say something on eliminating these subsidies - not necessarily with a timeframe for action - within the next 4 to 5 months. Cordero was non-committal, explaining that it was a complicated political issue. However, he agreed that Mexico needs to move away from price subsidies toward targeted subsidies for the poor. He cited fuel price increases already implemented at the end of 2009.

18. (SBU) The Ambassador mentioned that he was going to the border on January 14th and 15th to look at possible models of security and socio-economic cooperation in Ciudad Juarez (CJ) and Tijuana. He noted that the Embassy - through USAID - is partnering with a U.S. private firm, Evensen Dodge, that has decades of experience advising local governments on public finance and debt. Fernando Gama, Evensen Dodge Senior Vice President, gave Cordero an overview of the project and explained how Evensen Dodge is developing financing models to help mobilize private capital for Mexican subnational governments that work within the legal and policy parameters established by SHCP and the CNBV. Through this project, the states of Michoacan, Hidalgo, and Quintana Roo have borrowed over USD 1 billion in private capital for infrastructure and other productive purposes, at the most favorable rates available in Mexico.

19. (SBU) Werner and Gonzalez expressed interest and questions, noting that some states and most municipalities have limited borrowing capacity. Gonzalez also explained that the issue of "participaciones" (the part of the federal budget that belongs to the states by law) was currently highly politicized in Congress. Cordero said it was a good idea, but noted the existence of borrowing restrictions on subnationals. With respect to CJ,

MEXICO 00000198 003 OF 003

Cordero cited efforts undertaken while he was Secretary at the Social Development Ministry to adapt the "Medellin model" to CJ through the GOM program "Limpiemos Mexico." They are also exploring alternative models and solutions, but he noted budget constraints and the huge local and social investment that would be required to achieve results. The Ambassador noted that one advantage of the proposed financing model is that it allows for joint financing with the private sector and development banks. Without such a model for subnational finance, most of the GOM's ideas for intensive municipal infrastructure and job creation projects will remain ideas on paper.

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